England's intention had always been for the colonies to make them rich. The plan worked, but it became more difficult for England to make sure things stayed that way. And even with regulation, the colonies prospered, too.

Mercantilism

In the 1760s, a Frenchman visiting New York approached a trading post when he saw something unusual. A group of Iroquois Indians were bringing animal skins and fur to trade for things like tools and guns. That part was perfectly normal. The strange part was when the Indians sat down to wait. They brewed themselves some tea, sweetened it with sugar and drank it from porcelain cups.

The tea had come from Asia, the sugar was from the West Indies and the cups were made in England. All of them had come to America through Britain's extensive trade networks. In the 17th and 18th centuries, England's economy, like that of most European powers, depended on trade. This was the result of an economic system called **mercantilism**. Believing that there was a limited source of wealth in the world, the goal of a mercantilist economy was to amass the most silver and gold at the expense of all the other nations. This was done through a favorable balance of trade, so by exporting manufactured goods and limiting the number of imports, nations brought in hard currency. This could help them fight wars against the other nations.

Colonial Economics

The colonies became an important part of mercantilism even though they didn't have vast supplies of gold and silver as had been hoped. England's raw materials were limited, but the colonies were full of all kinds of resources that England needed. New England provided timber and ships. Grain from the middle colonies fed England's booming population. The South provided tobacco, indigo and other cash crops. Best of all, England could get all of these things without having to pay for them in hard currency. They could simply get them all through **triangular trade**. British goods were traded for slaves on the African coast, who were shipped to America and traded for the raw materials.

Even though the colonies existed to enrich the mother country, they each had an internal economy as well. This, too, revolved around trade. In the earliest days, people literally had to make or trade for everything they needed. The Northern colonies, especially, developed cottage industries that traded on a simple barter system. For example, one household might mill grain while the neighbor spun wool.

Even as the colonies were growing, their overseas trade remained based in agricultural products. The earliest towns and cities were places just to collect crops for shipment to England and then to offer the colonists imported goods they needed to build a home, run a farm and provide for their family. The first tradesmen who appeared in towns were the people who could create these implements instead of importing them - people like blacksmiths, brickmakers, gunsmiths and saddlers. As the colonies grew and these basic necessities of life were easier to get, more genteel trades, like printers, attorneys, silversmiths or physicians, increased. Children frequently learned their father's trade, but it was also common for them to be apprenticed to another tradesman elsewhere in the colony.

With the growth of towns and cities, merchants opened for business. General stores stocked their shelves with merchandise from England. Dressmakers used textiles imported from England. Cobblers made shoes with leather from - you guessed it - England. Few cities developed in the South since the population was spread far apart and plantations became self-sufficient. But even they traded with England - they just didn't do it through a merchant in town.

This exclusive trade with England had both positive and negative side effects. American ships were protected from pirates by the English navy, and colonists could get credit from English banks. The importation of English goods made many New England merchants rich. It kept ports in the middle colonies busy and helped to Anglicize the diverse population. Southerners had a guaranteed market for their tobacco, rice and indigo. Of course, Great Britain liked this exclusive trade, too. They had a growing new market for their manufactured goods and cheap new resources from which to make even more stuff.

Economic Regulations

But as the colonies matured, they began seeking trading partners other than England. So the British authorities passed a series of laws called the **Navigation Acts** to restrict colonial trade in favor of English mercantilist policies. Beginning in 1651, these acts restricted colonial trade to ships made in England or America. Anything imported into America had to go through England first. The colonies were restricted from manufacturing certain types and quantities of goods. And most importantly, there were lists of so-called 'enumerated items' that couldn't be sold anywhere except England or another American colony.

The goal of the Navigation Acts was to force Americans to buy English goods. This drove prices up because the colonists had to pay whatever England decided to charge. They couldn't get it anywhere else. Goods imported from other nations came to England first and then a tax was collected on their purchase. The Navigation Acts also drew even more distinctions between colonies than already existed. New England built ships and prospered from the restrictions. The middle colonies benefitted from increased port activities. But the South was hurt when tobacco became an enumerated item; with only one buyer (that would be England), the price of tobacco went down because they couldn't sell it to anybody on the open market. Still, most of these changes were accepted by the colonists - until the **Molasses Act** of 1733.

Even New England had benefitted from triangular trade even though they rarely purchased slaves. What they did want was molasses from the sugar plantations in the island colonies. New England factories used it to make rum, which was then purchased by the British. And until 1733, American distillers bought molasses on the open market, often purchasing it from competing colonial empires. So planters in the British West Indies asked Parliament to pass a tax on all molasses imported from French colonies. The idea of this was to make French molasses more expensive so the colonists would buy the English molasses. This new economic restriction would have totally destroyed the rum industry in the North, and it weakened the import business of the middle colonies.

Colonial Response

Interestingly, the Molasses Act opened up an entirely new industry in America: smuggling. Merchants realized that it was nearly impossible for the British navy to monitor all shipping activity. Smugglers who were caught with contraband could easily bribe customs officials who made very modest salaries. Officers who tried to enforce the law were easily intimidated. Juries rarely convicted smugglers who were actually brought before the courts.

So Americans realized that British attempts to control their economy could be easily avoided. Smuggling itself became a huge industry, helping such noteworthy men as John Hancock make their fortunes.

Colonies responded to the drain of hard currency from the colonies to England by creating paper money used within each colony. Some, like Pennsylvania's currency, were quite stable and helped stimulate internal trade. But even the best colonial currency couldn't be used to trade with another colony. And then when England got wind of the paper money, the practice was shut down until after the Revolution through a series of **Currency Acts**.

Colonial Prosperity

It may seem like the colonial economy was tightly controlled, but most of these regulations went into a state of **salutary neglect**. This meant that economic policies were not strictly enforced as long as the colonies kept prospering and kept enriching England.

And that is just what they did. Despite laws, regulations and smuggling, trade from Britain increased by over 300% in the mid-1700s. It is difficult to compare wealth in the colonial trade economy with our market economy today, but as many as ¾ of all farmers owned their land, and colonists purchased steadily increasing amounts of manufactured goods. In many respects, Americans were better off than Englishmen. They lived longer, healthier lives, owned more land, had more jobs and paid far less taxes. In the era just before the War for Independence, the average Briton paid 26 shillings in tax each year. The average American only paid one shilling a year even though they were technically British citizens. This disparity caused a great deal of resentment back in England and only justified the feeling that it was the colonies' duty to help the economy back home.

Lesson Summary

Let's review. England's economy, like most European powers, relied on trade. **Mercantilism** demanded that nations import more than they exported in order to amass a greater proportion of the world's finite resources. The colonies were designed to fulfill two roles in a mercantilist system: they provided nearly free raw materials for English manufacturers and a growing market for the **consumer goods** they produced. Out of necessity, colonists also traded with one another, helping cottage industries to develop. Towns grew to export materials and import goods. In time, tradesmen and merchants flourished. When colonists began trading with other nations, England passed several **Navigation Acts** to restrict any economic activities that didn't directly benefit the mother country. The **Molasses Act** would have crippled the colonial economy, but Americans soon began smuggling goods to avoid taxes. The **Currency Acts** continued America's dependence on trade and limited quantities of English hard currency. However, most policies fell into **salutary neglect** and the American colonists prospered.

http://education-portal.com/academy/lesson/the-13-colonies-developing-economy-overseas-trade.html